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SUBJECT: UGANDA CONTINUES TO SLIP IN GLOBAL COMPETITIVENESS INDEX

REF: KAMPALA 627

¶1. (SBU) Summary: The World Economic Forum, the World Bank, and the African Development Bank recently ranked Uganda as one of the worst places in the world to do business in their annual Global Competitiveness Index. This slide continues a downward trend in Uganda's ranking since 2004. However, despite the low overall score, Uganda scored relatively well in the areas of macroeconomic stability and labor market efficiency. Local business leaders agree with the poor ranking, but feel that the business climate is improving and presents opportunity for meaningful investment. End Summary.

Uganda Slides In Rankings...

¶2. (U) The World Economic Forum, the World Bank, and the African Development Bank recently ranked Uganda 128 out of 134 on its annual Global Competitiveness Index. The Index analyzes the business climate in 134 countries around the world based on both hard data and a survey of top business executives in each country. Uganda scored particularly low on infrastructure and education and was ranked second to last on health and primary education. Uganda's low score continues a downward trend in the score for the past five years. In 2004, Uganda scored a 3.5 average score (one is the worst, seven is the best), while the average score for 2009 was down to 3.3. In comparison, Kenya averages a 3.8, Tanzania averages a 3.5, and Sub-Saharan Africa as a whole averages a 3.7.

...But There's Still Hope

¶3. (U) Despite the low overall ranking, Uganda performed relatively well in two key sectors. In the area of macroeconomic stability, Uganda was ranked close to the middle of the index. The Government of Uganda (GOU) has promoted a stable market economy for the last twenty years and until recently at least, was sharply limiting its external debt burden. Further, Uganda ranked in the top quarter of the list in labor market efficiency. This category represents an area that Uganda could continue to leverage into economic growth. Joseph Were, business writer for "The Independent" weekly magazine noted that "a country like Uganda which depends on unskilled labor and natural resources should be perfecting its competitiveness based on these basic requirements (stability and labor)."

Business and Government Leaders Respond

¶4. (U) The perception of the business climate within the business community confirms the index score but contradicts its direction. Alex Wanjohi, Managing Director of AIG Uganda agreed with the ranking but noted that the overall climate is improving. Corruption, fraud, and weak compliance and enforcement are serious impediments to business in Uganda, he explained. Mantrac Managing Director and American Chamber of Commerce President Vincent Balogun

called corruption a "difficult challenge" for American companies, especially given their need to comply with the U.S. Foreign Corrupt Practices Act. He noted, however, that Uganda's developing economy remains a great market for American products, particularly those needed for economic and infrastructure development.

¶5. (U) Stephen Kaboyo, Deputy Director of Financial Markets at the Bank of Uganda, acknowledged the need to invest in infrastructure and human capital, calling them "essential" to increasing Uganda's competitiveness and strengthening regional economic integration. Kaboyo's comments track with a continual increase in annual GOU expenditures on roads. In 2004/2005, the GOU spent $91 million on roads. Road spending has increased each year and the GOU spent $250 million for 2008/2009. Over the same period, health expenditures also rose from $17 million to $28 million. However, these budget increases have not translated into effective spending. In the first half of 2008/2009, the Ministry of Works and Transport absorbed just 53% of its first-half development budget and the Ministry of Health spent only 76%. This inability to effectively spend continues to hamper infrastructure and economic development.

Comment

¶6. (SBU) The Global Competitiveness Index accurately describes the difficulties inherent in doing business in Uganda. However, Uganda remains a tantalizing opportunity for many businesses, as there remains a strong market for the goods and services inherent to economic development (e.g. power, telecommunications, roads). Even during the current global economic downturn, Uganda expects 6% growth in 2009, higher than the expected average for Sub-saharan

Africa. This growth should make Uganda attractive to U.S. and other foreign investors, but unfortunately, foreign direct investment is expected to fall this year as overseas investors pull back generally due to the impact of the global financial crisis and ensuing recession. Those foreign investors that do look at Uganda will also need to be aware of the risks and costs associated with corruption and poor infrastructure in Uganda. It does indeed remain a difficult place to do business.
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